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Lessons from our balance-sheet

Manchester

1899

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Mallace, Alexander
Lessons from our balance-sheet, by Alexander Mallace... Manchester, Co-operative union ltd, 1899.
21 p. tables. 18½ cm.
Volume of pamphlets

Another copy (Volume of pamphlets)

Copy I N

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 9:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 4/2/98 INITIALS: F.C.

TRACKING # : 32770

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LESSONS FROM

OUR BALANCE-SHEET.

BY

ALEXANDER MALLACE,

Manager, St Cuthbert's Co-operative Association Limited, Edinburgh.

MANCHESTER:
THE CO-OPERATIVE UNION LIMITED,
LONG MILLGATE.
1899.

LESSONS FROM OUR BALANCE-SHEET.

IN the co-operative movement it is essential to balance frequently, and present a Statement of Accounts to the members in the form of a Balance-Sheet. It is therefore of the utmost importance that this Balance-Sheet or Statement should be clear, concise, and yet contain as much information as enable the members to test the position or stability of the Society from the accounts submitted.

A study of the various Balance-Sheets issued by Co-operative Societies and Joint-Stock Companies reveals the fact that few bookkeepers agree as to what constitutes a perfect Balance-Sheet. In many cases the aim of the bookkeeper appears to be to give the minimum of information, and while what they submit may be perfectly correct, yet the accounts presented are not sufficient to enable any one to pronounce an opinion on the stability of the Society or Company.

Co-operative Societies have, however, made much progress lately, and a marked improvement in the Balance-Sheets is observable; but there is still much room for improvement. I find some Balance-Sheets weighted with unnecessary details, a large part of the accounts taken up with items that are quite unnecessary, and accounts left out that are absolutely essential to enable the members to check and verify the accounts.

It is evident that some bookkeepers consider that the only use a Balance-Sheet serves is to record the position of the Society at the date of balancing, and that the members should trust the Auditors and Committee to see that all details are

checked. I admit that the primary use of a Balance-Sheet is to give, in a concise form, an abstract of the accounts, and I also believe that the members of Committee and Auditors should have the confidence of the members; yet I hold that a Balance-Sheet should be so constructed that most of the items in the current Balance-Sheet can be checked by reference to its predecessor.

I know it is essential to the success of a Co-operative Society that the members should have full confidence in the members of Committee and officials, but the only way to get and maintain that confidence is by giving the members the fullest information possible. Many details must be left to the Auditors to check, which would complicate rather than help the members to understand the Balance-Sheet, but no essential item should be omitted from the accounts.

To enable a bookkeeper to make out a Balance-Sheet, a proper system of bookkeeping must be adopted. The labour involved in keeping books under a proper system is always remunerative. In adopting a system that thoroughly checks all entries, it may be necessary to engage a few more hands, but Committees should never shrink from expenditure of this kind. You may save in wages a few pounds and lose hundreds, and then not have the satisfaction of knowing where your money has gone. I am sorry to say that in the co-operative movement we have had a few cases lately which clearly illustrate this point, and there is unmistakable evidence that the system of bookkeeping adopted by some Societies is very unsatisfactory, and a great temptation to employees and officials. An honest man is always ready to adopt any system that will thoroughly check his work, and he is never afraid of any system of check, but a dishonest man cannot be too often or too carefully checked.

Laxity of bookkeeping has been the cause of many failures both in the private trade and in Co-operative Societies. It has also created opportunities for dishonest men. Young men have been tempted by the looseness of the check on their transactions, and an incalculable amount of harm has been done through the want of a thorough system of bookkeeping.

If the books are well kept, and the system satisfactory, the preparation of a Balance-Sheet becomes an easy matter.

In a Society with a large turnover and a number of branches and departments the Balance-Sheet must of necessity be more complicated than that of a Society which has no branches, and to the uninitiated the accounts may be somewhat bewildering. We have, therefore, to consider how we can make the accounts plain to the average member, and yet give the necessary information to enable an accountant to get at the true position of the Society from the Balance-Sheet. This is a problem that has occupied the attention of co-operators for many years, and a model Balance-Sheet has been prepared by the Co-operative Union, and submitted for the guidance of bookkeepers in the movement; and while we can scarcely expect to see a uniform Balance-Sheet adopted as long as Societies differ so much in the extent and mode of conducting their business, yet I regard the model Balance-Sheet issued by the Central Co-operative Board the most suitable as a whole, and the one likely to be adopted in the future, with modifications to suit the Society adopting it. No doubt the prejudice of bookkeepers has to be overcome before this result can be obtained. Each bookkeeper understands his own system of balancing best, and consequently considers his method *par excellence.* However, although bookkeepers differ in the mode of presenting accounts, and the position these should occupy, yet certain accounts are considered by most bookkeepers essential, and I may be permitted to state here what accounts I consider are absolutely necessary, and the position they should occupy on the Balance-Sheet.

First in importance is the Cash Account. A clear and concise statement of how the money is received and spent is essential. It is absolutely necessary that the cash transactions of a firm should be shown in detail in the Balance-Sheet, so that every person interested may be able to see how, and in what manner, their money is spent. This is necessary in the interests of the Company as a whole, and is only just and fair to the individual members thereof; and it is the best guarantee the Directors can have that they will retain the

confidence and approval of the members. The managers of a Society should have nothing to hide—nay, if the business is honestly, uprightly, and energetically carried on, the better informed the members are on the business of the Association, the greater will be the success of the concern, and the services of the Committee recognised and appreciated.

A Balance-Sheet should also contain a Trade Account, showing the business done in each department, and the profit made, or loss sustained, on the working thereof; and great care should be exercised by the Directors in seeing that this account is made out on the most approved system, and that the several items in the account are correctly stated.

A Profit and Loss Account should follow, showing profit made, and expenses incurred in the management of each department. You will then be able to ascertain whether the expense in managing a department has been greater than it should be, or than the profit made in that branch of the business, and this may put you in a position to check waste, or curtail unnecessary expense, and put the Society on a sound commercial footing. Some bookkeepers treat these two accounts as one, and show expenses in Trade Account; but while the result is the same, I consider the method of keeping these accounts separate preferable. In my opinion it is easier understood by the majority of the members when placed before them in this form.

A Capital Account, or statement of liabilities and assets, is essential in a Balance-Sheet. This should show forth in detail the liabilities and assets of the Society, unless the details are to be found in another account; and in that case, the account, where details can be found, should be specified when giving the total in Capital Account.

The accounts above specified are what I consider essential; but a number of subsidiary accounts are, in my opinion, necessary for the enlightenment and information of the members, such as Fixed Stock Account, Building Account, Reserve Fund Account, Allocation of Profits Account, General Expense Account, Investment Account, &c.

Having stated what I consider a Balance-Sheet should

contain, we will now take up the accounts of a model Balance-Sheet, and try as far as possible to make every account clear.

Cash Account.—We first, then, take the Cash Account. On the left or Debtor side, we show the balance on hand at beginning of half-year, and we add to that the total amount of cash received from every source during the half-year. Then on the right or Creditor side, we show the total cash paid out during the same period. The difference between cash paid out and cash received and balance, as per Debtor side, is balance on hand at end of year. It may be as well just to mention that balances falling on the left of an account are liabilities, and balances on the right or Creditor side are assets. I fancy I hear some one saying, How can this be, seeing that this same balance you treat as an asset at the end of the year is called a liability at the beginning of the year? Well, in reckoning with your treasurer, cashier, or banker, you give them credit, or, as it were, take possession of cash on hand or unpaid at date of reckoning; and as the money is the property of the Association, you properly treat it as an asset. Then, in beginning the new half-year, you again re-convey that money to treasurer, cashier, or banker, and consequently debit them with amount, or make them liable for it until date of reckoning again. The matter is thus treated, you see, as if the money had actually changed hands. The Cash Account, you will thus observe, is a record of cash transactions only. Nothing but actual cash transactions should appear in this account. Those who have examined the Balance-Sheets of various Societies, and studied their Cash Account, may observe a difference in the mode of working out this account. Some do not give payments and withdrawals from bank in Cash Account, but give balance in bank at beginning of half-year, and balance at end of half-year. Others, again, show amount paid and withdrawn from bank, but, of course, cannot show bank balances. It is immaterial, however, which system is adopted. I find that a number of Societies enter dividends from other Societies in Cash Account, although the money has never changed hands, and in order to square their account, have to make a cross-entry—that is to say,

they have to enter it again in Creditor side as having been repaid. It is quite improper for an item of this description to appear in Cash Account, unless it has actually changed hands. The proper place for that entry to appear is in an Investment Account, or if an Investment Account is not made out, then it should only appear in Trade and Expenses Account.

I observe in some Societies' Balance-Sheets on Creditor side, under the heading "Goods Paid," the amounts are given that have been paid by the various departments, such as "Grocery," "Bakery," ' Drapery," &c. It is wholly unnecessary to enter into details of this sort in Cash Account, and the entry "Goods Paid" should include payments made for goods by all departments, but should not include payments for Office Stationery nor Fixed Stock payments. I find that some Societies include all payments made to the Co-operative Wholesale Societies under this entry, although Stationery or Fixed Stock may be included in the payments to Wholesale; and as these sums are not as a rule entered through invoice book as "Goods Received," but are entered as Stationery or Fixed Stock, as the case may be, it is impossible to test the accounts unless the entry "Goods Paid" is for goods only.

Where Fixed Stock is received from Co-operative Wholesale Societies, the amount should be deducted from first payment made thereafter, and the amount for Goods and Fixed Stock shown in two separate entries in Cash Book.

In small Societies, trade expenses are usually detailed in Cash Account, and no General Expense Account is necessary. In a large business, however, where there are so many branches and departments, it is better that a separate account be made out, showing the details of expenses, and where they are chargeable to, only entering the total sum in Cash Account.

Bank Account.—I pass over the Bank Account without remark, as it is only a record of cash paid in and withdrawn during half-year, and showing balance at beginning and end of half-year.

Expenses Account.—To keep the Cash Account free of

unnecessary details, an Expenses Account is necessary, showing in detail the expenses incurred in working the business, and the amount chargeable to each department.

The General Expenses Account should be first given, with items detailed, showing the total Distributive and Productive Expenses.

The allocation of Distributive and Productive Expenses should follow.

The General Statement is all that is required to enable any one to find out total cost of management. You find there the total expense as per detail. The total depreciation of buildings, fixtures, and machinery, amount paid for interest on capital used should be shown here, and from this total interest received from all sources, including rents, should be deducted, the net balance being extended into total column, and this sum represents the total charge to the Society for interest and depreciation.

If any expenses have been prepaid the details should be stated in this account, and when you ascertain the gross total prepaid you deduct from this sum expenses incurred but not paid (if any), and the amount prepaid on the date of the previous balance.

If the amount of prepaid expenses is greater than the amount due and previous balance prepaid, the net sum is subtracted from total expenses; and if the amount of prepaid expenses is less than the amount due and previous prepaid balance, you add the net sum to total expenses.

If the net sum is a prepaid balance, the amount will appear in the Capital Account as an asset. If the balance is for expenses incurred but not paid, then it will appear in the Capital Account as a liability. In balancing this account, bookkeepers and Auditors must exercise great care, so that each period of the year may bear its fair proportion of expenses; and the net amount prepaid on the previous balance, and which would appear as an asset in the accounts for that period, must be carried forward and debited to the Expenses Account for the current quarter or half-year. Where the net balance was for expenses incurred and not paid, and the amount appeared as a liability

in the accounts, no entry will be necessary, as the amount will have passed through in the expenses paid in the current accounts.

By taking the total expense opposite each department, and dividing this sum by the sales, you may ascertain the cost per £ for working any department. To find the sales in any branch, you must take the net sales as per Credit and Sales Account, and add to that sum debts transferred from the department, subtracting from this total the debts transferred to the branch, the balance being actual sales of the department.

In making up these accounts, general expenses, such as salaries, management expenses, &c., should be allocated to each department in proportion to their sales. Horse keep, saddlery and stable expenses should be allocated in proportion to the number of horses engaged in each department.

In departments where horses are exclusively employed by them, such as coal, butcher meat, building, drapery, boot, furniture, grocery, or bakery departments, each branch of the business should be charged with the expenses per horse actually employed by each department, dividing the total expenses by the total number of horses employed; and if any branch should require the services of a horse belonging to another department, the branch requiring the horse should be charged for the hire, and credit given to the department sending the horse, in the same way as a horse would be hired and paid for to an outside party. In apportioning the expenses between the various branches of a department, the services rendered to each branch require to be taken into consideration, but it will be found as a rule that the fairest basis for charging up these expenses is in proportion to the sales of each branch.

Interest and general depreciation should be allocated to each department in proportion to the amount of capital required to carry on the business of each department respectively. Other expenses, such as wages, taxes, gas, &c., should be charged to each department as they are paid, and taken from cash abstract book at end of quarter or half-year.

Lending Account.—In making out this account, we require to debit the account with balance due by borrowers at the beginning of the quarter or half-year. We also debit the

account with cash advanced since, interest, fines, &c. We then credit the account with all instalments repaid and the balance, which is the amount due by borrowers at end of quarter or half-year. The total advances and repayments should agree with Cash and Building Accounts respectively.

INVESTMENT ACCOUNT.—The Investment Account should show on Debtor side amount invested at beginning of year, where invested, and how much in share, and amount in loan capital; also amount added by way of cash payments, as per Cash Account (Creditor side), and interest and dividend received during half-year. Then on Creditor side the amount withdrawn as per Cash Account (Debtor side) should be shown, balance invested in the various Societies, how much in share and loan, and rate of interest. This balance should be carried to Creditor side of "Capital Account."

CAPITAL ACCOUNT.—We now come to the consideration of Capital Account. This, as already stated, is an essential account in the preparation of a Balance-Sheet. Indeed, the most primitive Balance-Sheet I ever saw had always a Capital Account in some form or another. On the Debtor side of this account we show the total amount due by the Society, or that the Society is liable for, or may be called upon to pay; and on the Creditor side, the assets or property, cash or its equivalent, are shown. If the Society is sound financially, the assets should equal the liabilities; or, in other words, the Society should have sufficient property or cash to meet all calls that can be made on it. The amount of Reserve Fund in this account represents the amount of assets in excess of liabilities; that is to say, the Society is sound, and this amount over. And I may just here remark, that there should always be a good margin to work on, in order that the Association may be made secure against any panic or excitement that might arise. Committees and members should see that the Society is safe by strengthening the Reserve Fund. A good reserve is the backbone of a Society. If there has been any profit on the quarter or half-year's transactions, it will, as already explained, appear on Debtor side of this account; if a loss has been sustained on the quarter or half-year's working,

then the balance will appear on the Creditor side. I do not think that any item in this account calls for remark, further than I may add that you will observe, in tracing items on Debtor side to their respective accounts, that these balances all appear on the left, and that credit balances, or assets, all appear on the right or Creditor side of their respective accounts.

PENNY SAVINGS BANK ACCOUNT.—This is a record of the payments and withdrawals of depositors and interest paid to them. You will observe that the balance in this account falls on the *Dr.* side, and that the *Dr.* postings from cash book appear on *Cr.* side, while the *Cr.* postings appear on *Dr.* side.

RESERVE FUND.—This fund is set aside for the purpose of meeting any extraordinary charge or loss that a Society may sustain. A certain proportion of the profits, say not less than $2\frac{1}{2}$ per cent of the net profits, should be set aside for that purpose. The account should show the amount of the previous quarter or half-year's profits that have been put to this fund, as per Allocation of Profit Account for the previous quarter or half-year, and all fines, withdrawal and nomination fees, as per Cash Account, should be put to this fund. Should non-purchasing members fail to call for their money when notified, their names should be written off the books, and the Share Capital standing to their credit put to this fund, and passed through the *Dr.* side when they call for it. Interest should be credited to this fund at the same rate as is paid for Share Capital. This fund is the property of the Society as a whole, but no individual member can claim any share of it on withdrawal. The balance should always amount to a respectable sum, and being a liability, should appear on the *Dr.* side of Capital Account.

BUILDING ACCOUNT.—This account should show on *Dr.* side amount paid for the property and land owned by the Society; any additions during the current half-year should be shown, and in the case of property built and sold by the Society, the amount realised on sale should be deducted, the net total showing the net cost of each property owned by the Society. On the Creditor side former and present depreciation should be shown, and balance, nominal value.

The Auditors should be careful to see that no sum is placed

to this account for repairs or structural alterations, unless these alterations add to the market value of the buildings. I have known cases where every little alteration or repair was added to the cost of buildings, and as the amount allowed for depreciation was not sufficient to cover these extraordinary additions, the property was soon run up beyond its value. I am glad, however, to observe from the Balance-Sheets now issued that this system is being discarded, and where it is in operation a liberal allowance is made for depreciation. I would, however, strongly recommend a complete severance of the Property Repairs Account from the Property Account proper, and I would not under any conditions agree to add the cost of repairs or alterations to property unless the market value was enhanced by the operations. In my own experience, I have seen considerable sums spent on alterations that have made the property more suitable for the business of the Society, but that have actually made the buildings of less value as a saleable subject. By gutting out the partitions in property you may make large roomy shops and offices very suitable for the Society making the alterations possibly, but quite unsuitable for the average merchant, and in consequence the property is of less value if it were put into the market. The cost of these alterations should therefore be written off current profit, and the Society made stronger and more stable.

Fixed Stock.—This is an account that requires to be very carefully watched, in order that no entry may be posted to it that is of the nature of a repair. Fixed Stock should be depreciated liberally, and the rate of depreciation should not be less than 10 per cent. per annum, and in some cases it should be 20 per cent. per annum on original value. In the case of horses and fixtures, where the tear and wear is excessive, the rate should never be less than 20 per cent. per annum. The cost of painting, or renewal of utensils or plant that must be renewed frequently, should never be put to Fixed Stock Account. There is always the danger of those in charge of the affairs of a Society being tempted to add to fixtures sums that should be charged to current expenses, and to depreciate these fixtures at a rate that would make it questionable whether

the nominal value could be realised if put up for sale, in order that they may get credit for keeping the expenses down, and have the satisfaction of declaring a good dividend at the end of the quarter or half-year. The vouchers should therefore be carefully examined by the Auditors, and nothing passed as Fixed Stock that would not be saleable were you compelled to remove. In the case of an extraordinary expense for repairs or painting—an expense that would not require to be repeated for a few years—a Committee would be justified in spreading the expense over four quarters or two half-years, but in no case should an expense of this nature be posted to Fixed Stock Account. This account is made up in the same way as "Building Account" already noticed. The amount paid previously, and additions during the current half-year, are debited to the account; previous depreciation, current depreciation, and fixed stock or plant sold, are credited, the balance being "nominal value." This balance in Building and Fixed Stock Accounts is termed "nominal value," in contradistinction to "actual or real value." If the depreciation has been liberal, the "nominal" may be much less than the "real" value, and if the Society has been stingy in their depreciation, the "actual" value may be much less than the "nominal" value. The balance of these two accounts being assets, will be found on the Creditor side of Capital Account.

Rolling Stock Account. — This account should be debited with the amount paid for railway waggons, and the amount the waggons earn as per Cash Account should be placed to the Credit of the account, and from this sum interest on nominal value and repairs on waggons should be deducted. The balance should be added to previous depreciation. The Rolling Stock will thus be depreciated by its own earnings, and when the waggons are written off by depreciation, the whole of the earnings will go to the credit of Trade Account, and help to increase the profits of the Society.

Credit and Sales Account.—This account shows net cash sales of each branch, and renders an entry on each side of Trade Account for credit at beginning and end of quarter or half-year unnecessary. The actual sales can be found by

adding debt transferred from branch and subtracting debt transferred to branch, as per entries in Trade Account.

Trade Account.—This account gives the result of the quarter or half-year's trading. The balance on Debit side of this account is gross profit. If a loss has been sustained, the balance will fall on Credit side of account. This account should be debited with stock at beginning of quarter or half-year, goods purchased during the quarter or half-year, carriage and cartage, waggon hire, and productive wages. These are all the essential entries in the Debtor side of Trade Account. In large Societies, with various branches and departments, other entries are essential for getting at the departmental results, but do not alter the sum of the gross profit. The entries, such as debt transferred, bread transfers, coal transfers, building, and boot factory transfers, are simply cross entries, and appear both in *Dr.* and *Cr.* side of account.

On the Creditor side of this account, net sales, discounts, hides, tallow and fearns,* waggon hire and sundry payments, dividend on purchases, and stock on hand should be entered. These are all the necessary entries in this account; but to get departmental details, as already explained, you must enter debt transfers, bread and coal transfers, boot factory transfers, building department transfers, &c.

If a profit has been made it will appear on the Debtor side of this account; if a loss has been sustained it will appear on Creditor side of account.

Profit and Loss Account.—As the Trade Account shows balance gross profit or loss, as the case may be, the Profit and Loss Account shows the balance *net profit*, or if a loss has been sustained, the amount of the loss will be shown in Creditor side of account.

This account should be debited with productive expenses, distributive expenses, donations, educational expenses, alterations and extensions, the balance being net profit. The account should be credited with gross profit from Trade Account, balance undivided, and dividend over-estimated.

* Fearns is the name given by butchers for cash received for blood, sheep gut, &c.

It is very desirable to give departmental details in this and in Trade Account. If any department is weak, it enables you to apply a remedy in time. Many Societies have been almost ruined through their inability to check waste or mismanagement, in consequence of their departmental system of bookkeeping being faulty and out of date. Every Society should, therefore, adopt a departmental system of bookkeeping that will enable them to give proper departmental accounts in their Balance-Sheet.

Allocation of Profit.—In this account the disposal of profit and balance undivided should be shown, crediting the account with the balance net profit, and debiting it with amount placed to Reserve Fund, dividend to members and non-members, and undivided balance.

Statement of Checks. — In this account each branch should be debited with checks on hand at beginning of quarter or half-year, and amount received since. Each shop should be credited with net cash sales (deducting sales without checks), and stock of checks on hand at end of quarter or half-year, the difference being surplus or deficit.

General Statement of Checks.—This account should be debited with checks on hand at beginning of quarter or half-year, checks received from manufacturer, checks received from members on withdrawal, checks handed in at end of quarter or half-year, and it should be credited with checks sent to branches, checks withdrawn from circulation, and checks on hand, the difference between totals being surplus or deficit.

If there is a surplus in Statement of Checks or General Statement of Checks, the balance will fall on Debtor side, and if a deficit, the balance will fall on Creditor side of accounts.

Statement of Leakage.—In this account each branch should be debited with debts due and stock in hand at beginning of quarter or half-year, goods received since, and they should be credited with cash sales, credit and stock on hand at the end of quarter or half-year—the difference being leakage or surplus, the surplus appearing on Debtor side of account, and leakage on Creditor side.

This account is kept for the purpose of checking the waste

or loss that may occur in handling the goods of the Association, and is as essential as the checking of the cash transactions. Many Societies have no check on the goods entrusted to their shopmen; they do not realise the need of such a check. A Society that had no check on the cash transactions of their employees would be looked upon as a badly managed Society, and rightly so; but if it is necessary to check the cash transactions, it is surely as necessary to keep a check on the goods entrusted to the employees.

The leakage system has been adopted for this purpose, and if the books are properly kept, the system is the means of keeping waste down to a minimum, and pilfering is very soon detected.

In working out the system, the goods should be charged up at the retail price, but as goods are generally sold cheaper in bulk than in small quantities, all goods should be charged up at bulk prices; this should enable the shops to show a surplus generally at the end of the quarter or half-year.

Having gone over all the accounts, we will now give an example or two, showing how to prove the accounts, and to enable us to do so, we must submit a Capital Account and Allocation of Profit for a half-year, say March 1898.*

We will now take a Balance-Sheet for the half-year following, say September 1898, and test the Capital Account, which is the key of the Balance-Sheet.†

Taking the liabilities, we find the first entry is Members' Capital. If you refer to Capital Account for March, you will find the members' capital stood at £222,894. 10s. 2d. Add to this the amount paid by members during the half-year, as per Cash Account, £28,579. 8s. 4d., and subtract amount withdrawn as per Cash Account, £18,754. 13s. 2d., which leaves the amount £232,719. 5s. 4d., as per Capital Account.

The next item, Interest on Members' Capital, £4,162. 7s. 7d., is interest due members, and is paid away with the current dividend.

* See Appendix I.

† See Appendix II.

To test Non-members' Capital you proceed as with Members' Capital, thus—

To Amount withdrawn, per Cash Account .	. £2	8	3	By Non-members' Capital in March .	. £62	3	0
" Balance at present	. 64	17	7	" Amount added per Cash Account	. 5	2	10
	£67	5	10		£67	5	10

The next entry is Reserve Fund, and you test it thus:—

To Shares reclaimed, see Cash Account	. £19	14	5	By Reserve Fund in March .	£26,801	17	6½
" Employees' Liability Insurance Fund	200	0	0	" Allocation of Profit Account, viz., 2½ °/₀ Net Profit	1,457	7	2
" Balance, Reserve Fund . .	28,819	14	1½	" Non-members' Dividend . .	23	19	2
				" Withdrawal Fees, see Cash Account	51	3	6
				" Fines, see Cash Account . .	138	8	2
				" Nomination Fees, see Cash Account	0	19	9
				" Interest, see Expenses Account -	565	13	3
	£29,039	8	6½		£29,039	8	6½

Penny Savings Bank Balance is tested thus:—

To Withdrawals, per Cash Account	£2,947	18	6	By Balance in March	£8,972	17	10
" Balance at present	9,164	11	6	" Deposits, per Cash Account	3,013	17	8
				" Interest, per Expenses Account	125	14	6
	£12,112	10	0		£12,112	10	0

The Balance of Guarantees is checked in the same manner as Penny Savings Bank Balance, thus:—

To Guarantees, per Cash Account	£76	9	0	By Guarantees in March	£1,127	6	4
" Balance at present	1,194	9	1	" Guarantees, per Cash Account	122	3	6
				" Interest, per Expenses Account	21	8	3
	£1,270	18	1		£1,270	18	1

The next three items are grouped as Insurances, and to test them you take them thus:—

To Insurance Fund, per Cash Account	£300	6	7	By Employees' Accident Insurance Fund at March	£869	14	6
" Balance at present	1,196	11	7	" Plate Glass Insurance Fund at March	143	14	0
				" Employers' Liability Insurance Fund at March	...		
				" Insurance, as per Cash Account	259	14	6
				" Reserve Fund Account	200	0	0
				" Interest, per Expenses Account	23	15	2
	£1,496	18	2		£1,496	18	2

Amount due Merchants is tested as follows:—

To Overpaid Accounts in March	£34	17	5	By Amount due in March	£5,041	1	4
" Goods paid, per Cash Account	222,604	8	1½	" Goods purchased, per Trade Account	229,228	12	1
" Discounts, Returns, &c., per Trade A/c	6,495	9	10	" Discounts, per Cash Account	181	6	0½
" Net Balance due at present	5,316	4	1				
	£234,450	19	5½		£234,450	19	5½

You will observe that balance due here is £28. 19s. 9d. less than appears on *Dr.* side of Capital Account. This is caused by the fact that there are overpaid accounts amounting to £28. 19s. 9d., which appear on *Cr.* side of Capital Account. In balancing this account you can only get the net balance, and not the individual accounts. You therefore could not get gross amount due, and overpaid accounts, unless you had the individual accounts of each merchant. You will also observe that to get at the ledger discounts and credits, it is necessary to credit discounts, &c., in Cash Account, and debit discounts, returns, &c., in Trade Account.

The next entry on Debtor side of Capital Account is Balance, £64,216. 4s. 7¾d. This entry is simply the net profit on the half-year's trade. If the business had been unsuccessful and a loss sustained, the balance would appear on Creditor side. This balance, whether profit or loss, should be the same as balance in the Profit and Loss Account.

We then come to the Assets in Capital Account. The first item is Fixed Stock, and is balanced thus:—

To Fixed Stock in March	£5,390	13	5	By Depreciation, see Cash Account	£1	0	0
" Amount paid, see Cash Account	1,107	0	0	" Depreciation, see Expenses Account	861	7	0
				" Balance, nominal value	5,635	6	5
	£6,497	13	5		£6,497	13	5

Property is the next entry, and is tested thus:—

To Balance in March	£65,755	6	10	By Property sold, see Cash Account	£40	0	0
" Amount paid, per Cash Account	12,204	5	3	" Depreciation, see Expenses Account	1,013	7	8
" Additions, per Building Department	697	17	9	" Extra Depreciation, see Profit and Loss Account	800	0	0
				" Property sold, see Lending Account	240	0	0
				" Balance, nominal value	76,564	2	2
	£78,657	9	10		£78,657	9	10

The next item is Share and Loan Investments, and they are tested thus:—

	£	s.	d.		£	s.	d.
To Share and Loan Investments in March .	£173,833	17	9	By Loans withdrawn, see Cash Account . .	£37,524	8	1
" Amount added, see Cash Account . .	44,092	18	0	" Interest withdrawn, see Cash Account .	3	7	3
" Interest & Dividend added, see Investment Account . .	6,667	15	3	" Balance, Share and Loan .	187,066	15	8
	£224,594	11	0		£224,594	11	0

Credit, £14,595. 16s., and Stocks, £27,757. 15s. 11d., are items that must be left to Committee and Auditors to check. The Debt books should be carefully audited, and the Stock books thoroughly checked, additions and calculations gone over by the Auditors. The Stock-takers, however, are the parties responsible for accuracy of Stocks, and the parties appointed to take Stock should insist on seeing all the goods, and satisfy themselves that everything is correctly taken before signing the Stock Sheets.

Advances to Members should be checked thus:—

	£	s.	d.		£	s.	d.
To Advances in March . .	£17,500	15	4	By Instalments repaid, see Cash Account .	£2,750	10	6
" Amount Advanced, per Cash Account .	7,315	0	0	" Balance due by Borrowers .	22,756	18	3
" Cash Advanced, per Lending Account .	240	0	0				
" Interest added, see Expenses Account . .	451	13	5				
	£25,507	8	9		£25,507	8	9

The next item, Accounts Overpaid, £28. 19s. 9d., as already explained, is dealt with in finding amount due merchants. You get the net amount due in balancing Merchants' Accounts, and consequently the overpaid accounts are subtracted from the total amount due.

The next item, Balance in Bank, £12,297. 9s. 9d., is the Balance as per Bank Account, and the two items, Balance in Treasurer's hand, 17s. 10d., and Balance in Cashier's hand, £179. 3s. 6¼d., is Balance as per Cash Account.

This finishes the Capital Account, and I trust I have made the matter clear, and that what I have written may be the means of causing each member of a Society to take an interest in the Balance-Sheets periodically presented for their information.

APPENDIX I.

CAPITAL ACCOUNT FOR MARCH 1898.

LIABILITIES.

	£	s.	d.
To Members' Capital	£222,894	10	2
" Interest on Members' Capital	3,965	17	7
" Non-members' Capital	62	3	0
" Reserve Fund	26,801	17	6½
" Penny Savings Bank	8,972	17	10
" Guarantees	1,127	6	4
" Employees' Accident Insurance Fund	869	14	6
" Plate Glass Insurance Fund	143	14	0
" Engineers' Lock-Out Relief Fund	56	0	0
" Due Merchants	5,041	1	4
" Balance Profit	58,294	6	0¾
	£328,229	8	4¼

ASSETS.

	£	s.	d.	£	s.	d.
By Fixed Stock				£5,390	13	5
" Property				65,755	6	10
" Shares	£16,594	0	0			
" Loan	157,239	17	9			
				173,833	17	9
" Credit				15,542	4	0
" Stock				35,664	16	10
" Advances to Members				17,500	15	4
" Accounts Overpaid				34	17	5
" Balance in Bank				14,341	14	5
" Balance in Treasurer's hand				2	18	9
" Balance in Cashier's hand				162	3	7¼
				£328,229	8	4¼

ALLOCATION OF PROFIT—MARCH 1898.

	£	s.	d.
To 2½ per cent. Net Profits to Reserve Fund	£1,457	7	2
" Half-Profits on Non-members' Purchases to Reserve Fund	23	19	2
" Dividend on £295,250 Members' Purchases at 3s. 10d. per £	56,589	11	8
" Dividend on £250 Non-members' Purchases at 1s. 11d. per £	23	19	2
" Balance Undivided	199	8	10¾
	£58,294	6	0¾

	£	s.	d.
By Balance Profit	£58,294	6	0¾
	£58,294	6	0¾

APPENDIX II.

CAPITAL ACCOUNT, SEPTEMBER 1898.

LIABILITIES.

	£	s.	d.
To Members' Capital	£232,719	5	4
" Interest on Members' Capital	4,162	7	7
" Non-Members' Capital	64	17	7
" Reserve Fund	28,819	14	1½
" Penny Savings Bank	9,164	11	6
" Guarantees	1,194	9	1
" Employees' Accident Insurance Fund	616	3	9
" Plate Glass Insurance Fund	151	7	10
" Employers' Liability Insurance Fund	429	0	0
" Due Merchants	5,345	3	10
" Balance	64,216	4	7¾
	£346,883	5	3¼

ASSETS.

	£	s.	d.	£	s.	d.
By Fixed Stock—see Fixed Stock Account	£5,635	6	5			
" Property — see Building Account	76,564	2	2			
				£82,199	8	7
" Shares				17,594	0	0
" Loan				169,472	15	8
" Credit				14,595	16	0
" Stock				27,757	15	11
" Advances to Members				22,756	18	3
" Accounts Overpaid				28	19	9
" Balance in Bank	£12,297	9	9			
" " in Treasurer's hand	0	17	10			
" Balance in Cashier's hand	179	3	6¼			
				12,477	11	1¼
				£346,883	5	3¼

END OF
TITLE